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FM AMEMBASSY SARAJEVO
TO RUEHC/SECSTATE WASHDC PRIORITY 3384
INFO RUEATRS/TREASURY WASHDC PRIORITY

UNCLAS SARAJEVO 000946

SIPDIS

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EUR/SCE (FOOKS,RIEHL), EUR/ACE (VISOCAN), EB/IFD/OMA
(VOLK,YOUTH), D (SMITH), P (BAME)
TREASURY FOR GAERTNER

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PREL](#) [BK](#)

SUBJECT: BOSNIA: TEMPORARY AGREEMENT REACHED ON SINGLE
ACCOUNT

REF: A. SARAJEVO 756

[1](#)B. SARAJEVO 297

[1](#)C. 05 SARAJEVO 2953

[1](#)1. Summary: Intervention by the State and entity Prime Ministers has temporarily resolved the dispute over the Single Account that has frozen any distribution of revenues to the entities and Brcko since the beginning of April. After the Indirect Taxation Authority Governing Board (ITA GB) was unable to reach agreement resulting in three weeks of deadlock, the Prime Ministers agreed to use the same 2005 allocation coefficients through May that were already used for January-March 2006. This temporary agreement merely delays the argument until June, when the entity governments must agree on how to allocate revenues based on value-added tax (VAT) collections. Since the accuracy of VAT data is already in dispute, more crises with the Single Account are likely in the future. End Summary.

Temporary Agreement on Revenue Distribution

[1](#)2. Since the beginning of April, distributions to the entity and Brcko governments from the Single Account for indirect taxation revenues have been frozen (Ref A). The entities and Brcko have not been able to receive their funds due to a lack of agreement over the allocation coefficients that determine each party's revenue share. Weekly meetings of the ITA GB have been unable to resolve the issue.

[1](#)3. An agreement was finally reached on April 26 in a meeting between the three Prime Ministers, which was subsequently adopted by the ITA GB. However, the agreement is only a temporary arrangement through the end of June. The 2005 coefficients, already used from January to March of this year, will continue to be applied for April and May. Data from VAT collections in January-March 2006 will be used as the basis for the coefficients used in June. A permanent decision for the rest of the year after June 2006 must be reached by June 20. As a result of this agreement, the Single Account revenues were unfrozen and the entities and Brcko received their accumulated April funds.

[1](#)4. Significantly, the Prime Ministers reached the agreement without the participation of ITA GB Chairman Joly Dixon (Ref A). Given RS Prime Minister Dodik's ongoing threats to sue Dixon for past decisions that the RS considers illegal, this exclusion of Dixon gives more basis for the RS arguments to remove the international presence from the ITA GB.

Kicking the Can

[1](#)5. This temporary agreement relieves the pressure from the entities' inability to receive funds for such an extended period of time. However, it only delays the real fight to come, which is a decision on how to allocate revenues based on VAT collections. The VAT-based coefficients are supposed to be the proportion of VAT revenues collected in each entity and Brcko in relation to VAT revenues in the country as a whole. However, early reports on VAT filings indicate that the data is unreliable in determining what VAT was collected in which entity, sousing this data is expected to be controversial. No other country's VAT system requires businesses to track VAT "final consumption" by sub-region, and businesses that operate in the entire country are certain to be either unable or unwilling to do so.

MCELHANEY